

Dominion Energy Southeast Services, Inc.
Legal Regulatory Department
100 SCANA Parkway, Cayce, SC 29033
Mailing Address:
220 Operation Way, MC C222, Cayce SC 29033
DominionEnergy.com



May 2, 2019

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29211

RE: Application by South Carolina Generating Company, Inc. for
Authority to Refinance Debt and Enter into Note Agreement
Docket No. 2019-____-E

Dear Ms. Boyd:

Enclosed for filing on behalf of South Carolina Generating Company, Inc. is an Application for Refinancing and Enter into Note Agreement.

By copy of this letter, we are also serving the South Carolina Office of Regulatory Staff with a copy of the Application and attach a certificate of service to that effect.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in black ink that reads "Matthew W. Gissendanner".

Matthew W. Gissendanner

MWG/kms
Enclosures

cc: Jeffrey M. Nelson, Esquire
Dawn Hipp
(all via First Class U.S. mail and electronic mail w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-____-E

IN RE:

APPLICATION BY SOUTH)	
CAROLINA GENERATING COMPANY, INC.)	APPLICATION FOR REFINANCING
FOR AUTHORITY TO REFINANCE)	AND ENTER INTO NOTE
DEBT AND ENTER INTO NOTE)	AGREEMENT
AGREEMENT)	
)	
The relief requested herein will not require an)	
adjustment to retail electric base rates of)	
South Carolina Electric & Gas Company)	
_____)	

1. INTRODUCTION

South Carolina Generating Company, Inc. (the “Applicant” or “GENCO”), pursuant to S.C. Code Ann. § 58-27-1710 et seq. (2015), and S.C. Code Ann Regs. 103-823 and 823.1 (2012), hereby applies, to the Public Service Commission of South Carolina (the “Commission”), as discussed below, for authorization to enter into a Note Agreement (the “Note Agreement”) with respect to inter-company debt with Dominion Energy, Inc. (“DEI”) to refinance a portion of existing debt consisting of (i) outstanding utility money pool borrowings between Dominion Energy Southeast Services, Inc. (formerly known as SCANA Services, Inc.) and the Applicant and (ii) potentially an external Note with Prudential, as well as to return \$20 million of contributed equity capital to SCANA Corporation (“SCANA”), a South Carolina corporation. In support of this Application, GENCO would respectfully show unto this Commission the following key facts and would request of and apply to the Commission for the following relief:

2. CORRESPONDENCE

Corporate legal counsel for GENCO with respect to this Application are as follows:

K. Chad Burgess
 Matthew W. Gissendanner
Dominion Energy Southeast Services, Inc.
 Mail Code C222
 220 Operation Way
 Cayce, SC 29033
 (803) 217-8141 (KCB)
 (803) 217-5359 (MWG)
 chad.burgess@scana.com
 matthew.gissendanner@scana.com

All correspondence and any other matters relative to this proceeding should be addressed to these representatives.

3. BUSINESS

GENCO is a corporation organized and existing under the laws of the State of South Carolina, having its principal office and place of business in Cayce, South Carolina. On January 1, 2019, DEI completed its acquisition of SCANA, and as a result, GENCO became an indirect subsidiary of DEI, a Virginia corporation. GENCO is an affiliate of Dominion Energy South Carolina, Inc. ("DESC") formerly known as South Carolina Electric & Gas Company.¹

GENCO owns the Arthur M. Williams generating station (the "Plant"). DESC purchases from GENCO all of the power generated by the Plant pursuant to a Unit Power Sales Agreement and operates the Plant pursuant to an Operating Agreement.

¹ Effective April 29, 2019, South Carolina Electric & Gas Company changed its legal name to Dominion Energy South Carolina, Inc.

DESC is a combination electric and natural gas utility operating under the laws of South Carolina and is subject to the jurisdiction of this Commission pursuant to Chapters 5 and 27 of Title 58, S. C. Code of Laws (2015). DESC operates in the State of South Carolina, providing electric service to approximately 731,000 customers in 24 counties covering nearly 16,000 square miles in central, southern and southwestern portions of the State and furnishing natural gas service to approximately 379,000 customers in its natural gas service territory, which covers approximately 23,000 square miles.

4. THE PRIOR DEBT

In Docket No. 92-391-E, Docket No. 2003-355-E, and Docket No. 2008-161-E, the Commission authorized GENCO to enter into note agreements to refinance certain existing long-term debt and finance additional construction expenditures. The proceeds of those note agreements were used to finance or refinance the costs of acquiring, constructing and installing certain systems designed to eliminate, mitigate or prevent air and water pollution and to aid in solid waste disposal, including without limitation (a) electrostatic precipitators, (b) dust suppression and collection systems, (c) dry fly ash and bottom ash handling systems, (d) a coal pile run-off system, (e) a pH system for ash pond, (f) an ash haul road, (g) ash transport and landfill equipment, (h) selective catalytic reduction equipment, (i) scrubbers and (j) necessary land and improvements incidental to solid waste disposal, together with related structures, machinery, equipment and other property. When a portion of the prior debt authorized by Order No. 2008-385 in Docket No. 2008-161-E, matured on June 1, 2018, GENCO was unable to obtain external financing at reasonable rates. Therefore, this debt was refinanced through a combination of short-term borrowings through the

utility money pool authorized by the Federal Energy Regulatory Commission (“FERC”) and a \$20 million equity advance.

In addition to the debt that matured on June 1, 2018, in February 2004, GENCO issued under authorization granted by Order No. 2003-740, as amended by Order No. 2004-392 in Docket No. 2003-355-E, \$100 million, 5.49% Senior Secured Notes due February 1, 2024 (“Prudential Notes”). The Prudential Notes are subject to an annual sinking fund requirement of approximately \$6.7 million. Accordingly, the current outstanding balance as of the filing of this petition is approximately \$33.3 million.

5. AMOUNT AND CHARACTER OF SECURITIES TO BE ISSUED

A. Terms of Note

For the purposes hereinafter stated, the Applicant proposes to enter into the Loan Agreement with DEI (the “Note”), the terms for the Note generally described as follows:

Principal Amount: \$230,000,000 (maximum) in one or more issuance

Issue Date: On or before June 1, 2019 (estimated)

Interest Rate: Market (estimated not to exceed 4.5%)

Maturity Date: June 1, 2024 (maximum)

Call and
Redemption
Features: Whole or in-part, no penalty or premium

Sinking Fund: None

Estimated Initial
Offering Price: 100% of par

Underwriting
Discount: None

Redemption Price: Par

Credit Ratings: N/A

The Note is private inter-company debt.

B. Security

The Note will be issued on the general credit of the Applicant as unsecured.

**6. APPLICATION OF PROCEEDS AND COMPLIANCE
WITH S.C. CODE ANN. REG. 103-823.1**

In compliance with the provisions of S.C. Code Ann. Reg. 103-823.1, GENCO submits the following required information.

- A. Identify the effect of the proposed financings on the Company's income statement and balance sheet and identify the impact of the proposed financings on the Company's capital structure.
- See Exhibit A to Application for pro forma financial statements.
- B. Identify specifically how the funds obtained through the proposed financing are to be used by the Company.
- The funds obtained from the issuance of the Note will be used to refinance a portion of the outstanding utility money pool borrowings of GENCO which are short-term in nature and approved by FERC, to potentially redeem prior to maturity the existing Prudential Notes and to return the \$20 million equity advance from SCANA. This will have the effect of restoring GENCO's capitalization structure to approximate levels existing prior to June 2018.
 - Under the existing Prudential Notes agreement, GENCO must seek consent from the majority of the Noteholders to enter any further indebtedness.

Alternatively, or in the event that such consent is denied, GENCO may deem it beneficial to call the Prudential Notes prior to maturity. If GENCO were to call the debt, a make-whole premium estimated to be approximately \$4 million would be payable to the noteholders, which would be satisfied through funds obtained from the issuance of the Note.

- GENCO is requesting authorization to issue up to a maximum of \$230 million in inter-company long-term debt with DEI. The actual size of the issuance will be determined at the time of issuance, but in no case will such amount exceed the authorized level of \$230 million. Factors that will determine the actual amount of inter-company debt issued will be (a) whether the existing Prudential Notes are redeemed; (b) the actual make-whole premium related to the early redemption of the Prudential Notes; and (c) the actual amount of money pool borrowings outstanding.

C. Provide information of the possible impact on the Company if the proposed financing is not approved or if approval is delayed.

- If the proposed financing is not approved or if approval is delayed, the Applicant would need to seek an alternative short-term financing method and seek FERC approval to do so or be in risk of non-compliance with FERC authorizations.
- The proposed transactions will have the effect of shifting the capital structure of GENCO more heavily toward debt from common equity, which will produce a lower cost of capital and capital recovery rate billed to DESC to the benefit of DESC's customers. If the requested financing is not approved or is delayed,

GENCO's ability to restore its capitalization structure to the benefit of DESC customers would be adversely impacted.

- D. Specify the expected effective rate of interest of any debt financing (a range for the rate is appropriate). For common stock issues, provide information on the anticipated market price and book value per share at the time of issue.

= The initial rate of interest for the Note is expected to not exceed 4.5%.

- E. Provide information on the expected benefits (e.g., savings expected from early debt retirement) and costs (e.g., issuance expenses) of the proposed financing. Provide any studies that were developed to identify these costs and benefits and the net result. (This could incorporate present value analysis of the costs/benefits.) Identify the basic assumptions of any analyses of costs/benefits.

- As stated in Items B and C above, the primary benefit of the transaction is the restoration of the capital structure of GENCO to the approximate levels existing prior to June 2018. The issuance of this debt will have the effect of shifting the capital structure of GENCO more heavily toward debt from common equity, which will produce a lower cost of capital and capital recovery rate billed to DESC to the benefit of DESC's customers. The estimated underwriting, auditing and legal fees incurred by DEI to externally finance this intercompany loan will be passed through to GENCO as a spread to the interest rate; such spread is presently expected to be no more than 5 basis points (or 0.05%).

7. FINANCIAL CONDITION

Attached hereto as Exhibit A and made a part hereof are a pro-forma Balance Sheet of the Applicant as of December 31, 2018, and a pro-forma Income Statement of the Applicant for the

twelve months ended December 31, 2018 showing actual amounts as of and for the period reported along with pro-forma adjustments indicating the effect of the requests herein.

WHEREFORE, Applicant respectfully requests that the Commission make such investigation as it may deem necessary in accordance with law and:

- (1) Authorize Applicant to refinance the utility money pool short-term debt, the existing Prudential Notes and equity capital contribution through an internal Note Agreement with DEI not to exceed \$230 million;
- (2) Authorize the execution and delivery of a note agreement with respect to the issuance of a Note and;
- (3) Grant such other and further relief as may be appropriate in the circumstances.

Respectfully submitted,



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Attorneys for Applicant


Cayce, South Carolina
May 2, 2019

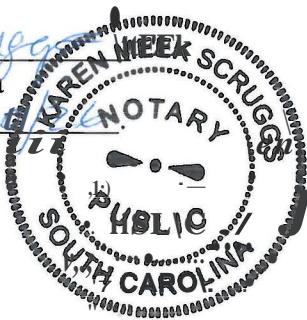
STATE OF SOUTH CAROLINA)
)
COUNTY OF LEXINGTON)

PERSONALLY APPEARED before me Iris N. Griffin, who on oath, said, that she is the Treasurer of South Carolina Generating Company, Inc., Applicant herein, and makes this verification on its behalf, that she has read the foregoing and attached Application and that the statements of fact therein are true of her ~~OWN~~ knowledge, and that as to the opinions expressed herein, she believes them to be true.


Iris N. Griffin

Sworn to and subscribed before me
this 1st day of May, 2019


Notary Public for South Carolina
My Commission expires 1/8/2022



EXHIBIT

Exhibit A Applicant's Pro Forma Financial Statements

South Carolina Generating Company, Inc.
Pro Forma Balance Sheet
December 31, 2018 (unaudited)
(Dollars in thousands)

	Actual December 31, 2018	Adjustments	As Adjusted December 31, 2018
Assets:			
Utility Plant			
Plant in service	\$ 732,826		\$ 732,826
Less: Accumulated Depreciation and Amortization	(267,740)		(267,740)
Total	465,086		465,086
Construction Work in Progress	12,646		12,646
Utility Plant, net	477,732	-	477,732
Current Assets:			
Cash and Special Deposits	19,578	\$ (6,667) (a)	
		230,000 (b)	
		(227,333) (c)	15,578
Receivables from affiliated company	8,958		8,958
Other accounts receivable	58		58
Inventories:			
Fuel	20,842		20,842
Materials and Supplies	12,121		12,121
Prepayments	901		901
Total Current Assets	62,458	(4,000)	58,458
Deferred Debits	25,666	4,000 (c)	29,666
Total Assets	\$ 565,856	\$ -	\$ 565,856
Capitalization and Liabilities:			
Common Equity:			
Common Stock	\$ 20,000		\$ 20,000
Other paid in capital	56,774	\$ (20,000) (c)	36,774
Retained earnings	96,561		96,561
Total Common Equity	173,335	(20,000)	153,335
Long-Term Debt, Net	66,599	(6,667) (a)	
		230,000 (b)	
		(26,666) (c)	263,266
Total Capitalization	239,934	176,667	416,601
Current Liabilities:			
Current portion of long-term debt	6,667	(6,667) (c)	-
Accounts payable	10,467		10,467
Due to affiliate	170,862	(170,000) (c)	862
Taxes accrued	4,782		4,782
Interest accrued	470		470
Dividends declared	3,945		3,945
Other	765		765
Total Current Liabilities	197,958	(176,667)	21,291
Deferred Credits:			
Accumulated deferred investment tax credits	1,281		1,281
Accumulated deferred income taxes	65,570		65,570
Other deferred credits	61,113		61,113
Total Deferred Credits	127,964	-	127,964
Total Capitalization and Liabilities	\$ 565,856	\$ -	\$ 565,856

South Carolina Generating Company, Inc.
Pro Forma Income Statement
December 31, 2018 (unaudited)
(Dollars in thousands)

	Actual December 31, 2018	Adjustments	As Adjusted December 31, 2018
Electric operating revenues	\$ 198,647	\$ (15,981) (f)	\$ 182,666
<u>Operating Expenses</u>			
Fuel Used in Electric Generation	109,021		109,021
Other Operation	9,780		9,780
Maintenance	7,109		7,109
Depreciation and Amortization	19,923		19,923
Other Taxes	7,089		7,089
Total Operating Expenses	152,922	-	152,922
<u>Operating Income</u>	45,725	(15,981)	29,744
<u>Other Income</u>			
AFUDC- equity funds	-		-
Other expense	(589)		(589)
Total other expense	(589)	-	(589)
Income Before Interest Charges	45,136	(15,981)	29,155
<u>Interest Charges</u>			
Interest expense	8,471	3,335 (d) 800 (e)	12,606
Other Interest Expense	3,321		3,321
AFUDC Borrowed Funds	(113)		(113)
Total Interest Charges, Net	11,679	4,135	15,814
Income Before Income Taxes	33,457	(20,116)	13,341
Income Taxes	8,560	(832) (d) (200) (e) (3,987) (f)	3,541
Net Income	\$ 24,897	\$ (15,097)	\$ 9,800

South Carolina Generating Company, Inc.
Pro Forma Statement of Capitalization
December 31, 2018 (unaudited)
(Dollars in thousands)

	Actual		Adjustments		As Adjusted	
	December 31, 2018	%			December 31, 2018	%
Long-term Debt	\$ 73,266	29.71%	(6,667) (a)			
			\$ 230,000 (b)			
			(33,333) (c)	\$	263,266	63.19%
Common Equity	173,335	70.29%	(20,000) (c)		153,335	36.81%
	\$ 246,601	100.00%	\$ 170,000	\$	416,601	100.00%

South Carolina Generating Company, Inc.
Notes to Pro Forma Financial Statements
December 31, 2018 (unaudited)

These Pro Forma Financial Statements for South Carolina Generating Company, Inc. (GENCO) are prepared based on the latest publicly available financial results, which are as of December 31, 2018.

As described in the application, GENCO is requesting Commission approval to issue up to \$230 million in long-term notes to an affiliate, Dominion Energy, Inc., with a scheduled maturity of five years (the "New Notes"). GENCO expects to use the proceeds from the New Notes to repay \$170 million of short-term borrowings and to return a \$20 million equity contribution to its parent company. In addition to Commission approval to issue the New Notes, GENCO must obtain the consent of existing holders of \$33.3 million of its long-term notes, or in the alternative, redeem prior to maturity such existing long-term notes. The redemption of the existing long-term notes prior to their maturity would require the payment of approximately \$4 million in make-whole premiums. The pro forma entries that follow assume that GENCO would redeem the existing long-term notes prior to their maturity and utilize proceeds from the New Notes for such redemption.

- (a) Represents a sinking fund payment on existing long-term notes made February 1, 2019.
- (b) Represents the receipt of cash and increase in long-term debt of \$230 million as a result of the issuance of the New Notes.
- (c) Represents repayment of \$170 million in existing short-term borrowings, \$33.3 million in existing long-term notes (comprised of \$26.7 million classified in long-term debt and \$6.7 million classified in current portion of long-term debt) and the return of a \$20 million equity contribution. Make-whole premiums on the existing long-term notes totaling \$4.0 million have been assumed.
- (d) Represents the interest expense and the related income tax effects resulting from the issuance of the New Notes described in (b) at 4.50% interest, outstanding for 12 months, net of the interest expense and related tax effects resulting from the repayment of the existing short-term borrowings and existing long-term notes described in (c). Calculations are as follows:

Net increase in interest expense:		
Issuance of New Notes of \$230 million at assumed rate of 4.50%	4.50%	\$ 10,350,000
Repayment of existing debt:		
Short-term borrowings of \$170 million at rate in effect at December 31, 2018	3.05%	5,185,000
Long-term notes of \$33.3 million at the rate of 5.49%	5.49%	1,830,000
Net increase in interest expense		<u>\$ 3,335,000</u>

Net decrease in income tax expense:		
\$ 3,335,000 at GENCO's statutory income tax rate	24.95%	<u>\$ 832,083</u>

- (e) Represents the amortization over five years of estimated make-whole charges of \$4.0 million and the related income tax effects.

Make-whole costs:		
\$ 4,000,000 amortized over five years		<u>\$ 800,000</u>

Net decrease in income tax expense:		
\$ 800,000 at GENCO's statutory income tax rate	24.95%	<u>\$ 199,600</u>

- (f) Represents the decrease in electric operating revenues and associated income taxes that would result from the issuance of the long-term debt in (b) above and the debt repayments and return of equity described in (c) above. These transactions will have the effect of shifting the capital structure of GENCO more heavily toward debt from common equity, which will produce a lower cost of capital and capital recovery rate. Revenues earned by GENCO are based in part on the capital recovery rate multiplied by its total net investment. As of December 31, 2018 GENCO's capital recovery rate was .7883%. The capital recovery rate would be approximately .5833% after giving effect to the issuance of the New Notes, repayment of existing long-term notes and return of equity. Therefore, GENCO's revenues are expected to decrease following these transactions. The annual impact of this change based on the December 31, 2018 invoice to DESC is as follows:

Amount invoiced for month of December 2018	\$ 8,957,730
Estimate of amount to be invoiced for the month of December 2018 assuming issuance of the New Notes and return of equity	<u>7,626,016</u>
Estimated decrease in monthly revenues	\$ 1,331,714
Factor to annualize estimated decrease	12
Estimated annual reduction in revenues	<u>\$ 15,980,568</u>
Statutory income tax rate	24.95%
Estimated income tax expense reduction due to decreased revenues	<u>\$ 3,987,152</u>

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-__-E


IN RE:

Application of South Carolina Generating Company, Inc. for Authority to Refinance Debt and Enter into Note Agreement)	CERTIFICATE OF SERVICE
)	
)	
)	
)	

This is to certify that I have caused to be served this day one (1) copy of South Carolina Generating Company, Inc.'s **Application for Refinancing and Enter into Note Agreement** to the persons named below via U.S. First Class Mail and electronic mail at the addresses set forth:

Dawn Hipp
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
dhipp@ors.sc.gov

Jeffrey M. Nelson, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
jnelson@ors.sc.gov


Karen M. Scruggs

Cayce, South Carolina

This 2nd day of May, 2019